



# Activity Review

## North Carolina State Board of Certified Public Accountant Examiners

1101 Oberlin Road, Suite 104 • PO Box 12827 • Raleigh, NC 27605 • (919) 733-4222 • No. 2-2003

### Frequently Asked Questions about the Computer-Based Exam

**NOTE:** *Not all requirements for the computer-based Uniform CPA Examination have been finalized. The following answers are believed to be accurate, but are subject to change as the implementation of the CBT draws closer and will be updated as more information becomes available. These answers were last updated January 8, 2003.*

#### When is the final administration of the pencil-and-paper Uniform CPA Examination?

November 2003 is scheduled to be the final administration of the pencil-and-paper exam.

#### When will the computer-based Uniform CPA Examination (CBT) be introduced?

The CBT is scheduled for introduction by May 2004.

#### Will the content of the CBT be different from the content of the pencil-and-paper exam?

Yes, the content of the CBT will be different from the content of the pencil-and-paper exam. *(For a comparison of the two exams, please see chart on page 4.)*

#### What are the content changes?

Information on the proposed structure and content of the CBT is discussed in "Proposed Structure & Content Specifications for the Uniform CPA Examination," which is available for download from [www.cpa-exam.org](http://www.cpa-exam.org), the AICPA's exam web site.

#### What is the length of the CBT?

The CBT will be 14 hours long

whereas the pencil-and-paper exam is 15.5 hours long. *(For a comparison of the two exams, please see chart on page 4.)*

#### Will the CBT include essay questions?

Yes, essays (constructed responses) will be incorporated into the exam simulations.

#### Are the education requirements for taking the exam also changing?

The education requirements for the CBT are the same as the education requirements for the pencil-and-paper exam.

#### Will I still have 120 days after taking the exam to meet the educational requirements?

Yes, you will still have 120 days after taking the exam to meet the educational requirements.

#### Will the fee for taking the exam increase?

Yes, there will be an increase in the fee to take the exam. The estimated total cost for all four sections of the CBT is between \$500.00 - \$700.00.

#### Will my current conditioning change under the CBT?

A candidate will retain credit for the sections of the exam already passed. However, if a candidate does not pass the remaining sections of the exam prior to October 31, 2005, the credits earned on the pencil-and-paper exam will expire.

#### How will my current credits transfer to the CBT?

Credits earned on the pencil-and-paper exam will transfer to the CBT as shown in the chart on page 4.

#### How much time do I have to pass all sections of the CBT?

Once you receive credit for a section of the exam, you will be allowed a maximum of 18 months to pass all remaining sections of the exam in order to retain credit for the passed section.

#### What is a "testing window"?

The CBT will be available approximately 60 days out of each calendar quarter. This 60 day period is called a testing window and there will be four testing windows each calendar year.

A candidate may take any of the four exam sections during any testing window. However, a candidate may take each section of the exam only one time during a testing window.

CBT

continued on page 4

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[www.state.nc.us/cpabd](http://www.state.nc.us/cpabd)

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## Disciplinary Actions

### Name Not Published

*THIS CAUSE*, coming before the Board at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present. Pursuant to NCGS 150B-41 and 150B-22, the Board and Respondent stipulate the following Findings:

1. Respondent is the holder of a certificate as a Certified Public Accountant in North Carolina.
2. In a complaint filed with the Board, Complainant stated that she and her ex-husband were members of a Limited Liability Company (LLC). She stated further that Respondent prepared the LLC's tax returns including a K-1 that the LLC had sent her. Complainant further alleged that upon receiving a K-1, she had contacted Respondent in his capacity as certified public accountant for the LLC that she co-owned and requested documentation supporting the income and withdrawals for the Complainant's capital account. The K-1 indicated that Complainant had owned ninety-five (95) per cent of the LLC during the period covered by the K-1. Complainant asserted that Respondent refused to provide these requested records to Complainant. Respondent contends that he was not obligated under the accountancy rules to return LLC records to the Complainant since she was not, at the time of the request, the designated Manager of the LLC.
3. According to the Complainant, sometime after the request referenced in #2 above, Complainant also requested copies of the joint tax returns prepared by Respondent over the last five (5) years for Complainant and her ex-husband. Complainant alleges that Respondent also refused to provide her with the requested copies of the joint tax returns. Respondent contends that he never received complainant's request for the joint tax returns.
4. Despite at least two written demands, Respondent failed to respond to the Board's requests for an explanation as to how his actions would comply with Board rules regarding the return of cli-

ent records. Respondent contends that he did not intentionally fail to respond to the Board and that he relied upon his attorney to respond. Said attorney was legal counsel for the complainant's ex-husband and had actually retained Respondent as an expert "in anticipation of the litigation" between the complainant and her ex-husband. Respondent did not agree to compensate said attorney and the attorney never represented to the Board that he was also serving as Respondent's attorney.

5. Respondent contends that he did not intentionally violate the accountancy statutes and rules. Nevertheless, Respondent wishes to resolve this matter by consent and agrees that the Board staff and counsel may discuss this Order with the Board ex parte, whether or not the Board accepts this Order as written.

*BASED UPON THE FOREGOING*, the Board makes the following Conclusions of Law:

1. Respondent is subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.
2. Respondent's failures to return client records upon demand represent violations of NCGS 93-12(9)e, and 21 NCAC 8N .0305.
3. Respondent's failures to cooperate with Board inquiries represents violations of NCGS 93-12(9)e and 21 NCAC 8N .0206.

*BASED ON THE FOREGOING* and in lieu of further proceedings under 21 NCAC Chapter 8C, the Board and Respondent agree to the following Order:

1. Respondent shall receive an unpublished reprimand.
2. Respondent shall reimburse the Board for administrative costs incurred in the cost of this investigation.

**David B. Watkins #26877**  
**Cumming, GA 01/21/03**

*THIS CAUSE*, coming before the Board at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present. Pursuant to NCGS 150B-41 and 150B-22, the Board and Respondent stipulate the following Findings:

1. Respondent was the holder of North Carolina certificate number 26877 as a Certified Public Accountant.
2. In July of 1999, Respondent was notified in a letter from Robert N. Brooks that his application for an original CPA certificate had been granted by the North Carolina State Board of CPA Examiners (Board).
3. In June of 2000, Respondent signed and submitted to the North Carolina Secretary of State's office an Application for Certificate of Authority on behalf of Winn Caribe Communications, Inc., (Winn Caribe) a Georgia corporation and a wholly owned subsidiary of CoreNet Services Inc. In said application, Respondent was identified as the Assistant Secretary.
4. On his 2001-2002 individual certificate renewal as filed with the Board in June of 2001, Respondent denoted that his employer and employment address had changed to "CoreNet Services, Inc., 3500 Parkway Lane, Norcross, Georgia 30092."
5. Sometime in the spring of 2001, while an employee of CoreNet Services, Inc., Respondent prepared, as an individual practitioner located in Cumming, Georgia, a reviewed financial statement on behalf of Winn Caribe. During this time period, Respondent was not registered with the Board as offering services through an individual practitioner firm and was not registered as participating in a Board-sanctioned peer review program.
6. In said reviewed financial statement, Respondent did not disclose any lack of independence. In an e-mail dated May 31, 2001, Respondent informed an official with Winn Caribe that his preparation of the reviewed financial statement was a violation of the American Institute of Certified Public Account-

tants' (AICPA) ethics rules and "possibly a violation of North Carolina law."

7. Sometime in 2001, Winn Caribe, with Respondent's knowledge, submitted the reviewed financial statements to the Arkansas Contractors Licensing Board (Arkansas Licensing Board) in support of Winn Caribe's renewal application for a contractors license in Arkansas.

8. In April of 2002, Respondent requested that his North Carolina certificate be placed on "inactive" status. Under 21 NCAC 8J .0106, Respondent could have subsequently applied to change the status of his North Carolina certificate to "active" status.

9. In May of 2002, the attorney for the Arkansas Licensing Board filed a complaint with the Board alleging that Respondent had failed to comply with North Carolina's statutes and rules.

10. As an employee of Winn Caribe's parent company and as an officer in Winn Caribe, Respondent was not independent with respect to Winn Caribe and therefore could not, in accordance with applicable accounting and auditing standards, provide Winn Caribe with reviewed financial statements.

11. Respondent wishes to resolve this matter by consent and agrees that the Board staff and counsel may discuss this Order with the Board *ex parte*, whether or not the Board accepts this Order as written.

**BASED UPON THE FOREGOING**, the Board makes the following Conclusions of Law:

1. Respondent is subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.

2. Respondent's actions as set out above constitute violations of NCGS 93-12(7b), 93-12(8c), 93-12(9)d, and 93-12(9)e and 21 NCAC 8J .0108, 8M .0102, 8N .0201, 8N .0202(a), 8N .0202(b)(3), 8N .0203(a), 8N .0203(b)(1), 8N .0204(a), 8N .0209, 8N .0301(a), 8N .0303(a), 8N .0402(a), 8N .0403, 8N .0404, and 8N .0406.

**BASED ON THE FOREGOING** and in lieu of further proceedings under

21 NCAC Chapter 8C, the Board and Respondent agree to the following Order:

1. Respondent's CPA certificate status is hereby changed from inactive to permanently revoked.

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**John Thomas Margeson #9521**  
**Raleigh, NC 01/21/03**

**THIS CAUSE**, coming before the Board at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present. Pursuant to NCGS 150B-41 and 150B-22, the Board and Respondent stipulate the following Findings:

1. Respondent is the holder of North Carolina certificate number 9521 as a Certified Public Accountant.

2. In May of 2001, Respondent was charged with the misdemeanor of impersonating a duly authorized employee of the North Carolina Department of Health [a violation of NCGS 14-277] and with "unlawfully, willfully and feloniously" violation NCGS 14-277.3 [stalking].

3. Also, in May of 2001, Respondent was cited for possession of less than ½ ounce of marijuana, a controlled substance.

4. Sometime later in 2001, Respondent was found "not guilty" on the charge of impersonating an authorized employee of the North Carolina Department of Health.

5. In early 2002, Respondent was convicted of stalking a sixteen-year-old girl and of possessing less than ½ ounce of marijuana. Respondent appealed both convictions.

6. In August of 2002, Respondent notified the Board that he has dropped both appeals and had requested that the cases be remanded to District Court for sentencing.

7. In an Order issued by Judge Anne Salisbury on July 29, 2002, Respondent was sentenced to 45 days of imprisonment. The sentence was suspended subject to the following conditions: that Respondent's pay \$190.00 in fines and costs; that Respondent participate in a mental health and substance abuse assessment; that Respondent not have any contact with the sixteen year old girl;

and that Respondent stay away from any public school grounds unless Respondent's child is involved in a school function. Respondent was placed on eighteen (18) months of unsupervised probation.

8. Respondent did not report the charges described above on his individual 2001-2002 certificate renewal.

9. Respondent did not provide the Board with any information regarding the charges until Board staff sent a letter to his last known home address in December of 2001.

10. Despite a request by Board staff that Respondent keep the Board apprised of the charges, Respondent did not provide subsequent information regarding the charges except in response to direct requests from Board staff.

11. Respondent wishes to resolve this matter by consent and agrees that the Board staff and counsel may discuss this Order with the Board *ex parte*, whether or not the Board accepts this Order as written.

**BASED UPON THE FOREGOING**, the Board makes the following Conclusions of Law:

1. Respondent is subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.

2. Respondent's actions as set out above constitute violations of NCGS 93-12(9)e and 21 NCAC 8N .0201, .0203, .0204, .0206, and .0208.

**BASED ON THE FOREGOING** and in lieu of further proceedings under 21 NCAC Chapter 8C, the Board and Respondent agree to the following Order:

1. Respondent's certificate is revoked for a period of at least eighteen (18) months.

2. Respondent may apply for the reinstatement of his certificate after at least eighteen (18) months and as long as he has completed his sentence of probation as ordered by the Court and as long as he has not been convicted of any other criminal offense during the revocation period.

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**CBT** *continued from front*

**How often can I take the CBT?**

A candidate will be allowed to take each section of the exam up to four times a year with a limit of one time per section in each testing window.

**What will be the deadlines for applying to take the CBT?**

Application deadlines will be eliminated, allowing candidates to apply at any time of year.

**Where will the CBT be administered?**

The NC State Board of CPA Examiners has not yet determined if it will operate its own testing center or use a Prometric testing center.

**Will the CBT inhibit state boards' ability to monitor candidates?**

No. State boards' responsibilities will not be diminished or negatively affected by the CBT. State boards will continue to determine candidates' eligibility and notify candidates of their grades. State boards have the responsibility to administer or oversee the administration of the exam in their jurisdiction.

**What assistance will be provided to candidates to help them prepare for the CBT?**

Familiarization materials will be available on the AICPA's exam web site ([www.cpa-exam.org](http://www.cpa-exam.org)) and on CD-ROM.

The AICPA will develop the materials and will make them available to state boards, state societies, schools, and candidates, prior to the launch of the CBT.

**Will I be required to take all four sections in a two-day period?**

No, you may take each section separately and you will schedule when you want to take each section.

**Will I be required to take the sections in a specific order?**

No, you can choose to take the sections in any order.

**Will I be required to pass one section of the exam before applying to take another section?**

No, you will not be required to pass one section before applying to take another section of the exam.

**Once I apply for the exam, how long will it be before I actually take the exam?**

The Board will need to verify a first-time (initial) candidate's educational eligibility before issuing a "Notice to Schedule," so the process will take a few weeks.

A re-exam candidate should receive a Notice to Schedule within a few days of applying to the Board.

The Notice to Schedule is valid for 6 months from the date of issue, so you will have a set period of time to schedule and take the exam section(s).

**How will I schedule an appointment to take the exam?**

After applying to the Board and receiving a Notice to Schedule, you will contact the testing center to schedule a testing appointment. The Notice to Schedule is valid for 6 months from the date of issue, so you will have a set period of time to schedule and take the exam section(s).

**Will all candidates take the same examination, or will each candidate take a different test?**

Candidates will take different, equivalent exams. In the computerized testing environment, each candidate's examination will consist of items drawn from a pool of test questions according to defined specifications.

Although candidates will take dif-

ferent tests, the specifications will ensure that the results are comparable.

The specifications will also include "exposure controls" to limit the extent to which examinees are administered the same sets of questions.

**With candidates taking different tests, how do you ensure that each candidate is being correctly assessed?**

The test delivery system will ensure that all tests meet content and psychometric specifications.

The testing package delivered to test centers will contain not only test items, but also the rules for the administration of tests drawn from that collection of items.

All items will be classified according to their content and statistical properties before they are administered in an operational test.

The testing software will then administer items according to the specifications to ensure that each candidate is administered a test of appropriate content coverage and difficulty.

**Who will be responsible for certifying someone as an ADA candidate?**

State boards will continue to determine if a candidate qualifies as an ADA candidate.

**Will the scoring/grading change to pass/fail with the CBT?**

It has not been determined if candidates will continue to receive numerical grades or if grades will be reported only as pass/fail.

**Can I immediately find out my score/grade after taking a section of the exam?**

No, the CBT will contain structured responses that must be transmitted to the AICPA for scoring.

**When will I receive my scores/grades?**

There will no longer be a Uniform Grade Mailing Date. The CBT will contain structured responses that must be transmitted to the AICPA for scoring, so it is anticipated that it will be several weeks before scores/grades are available for mailing.

**Can I request a review of my grades or an appeal of my grades under the CBT?**

Yes, you can still request a review or an appeal of your grades, but the process will be slightly different than with the pencil-and-paper exam.

PAPER-AND-PENCIL EXAM	COMPUTER-BASED EXAM
Auditing (4.5 hours)	Auditing & Attestation (4.0 hours)
Financial Accounting & Reporting (4.5 hours)	Financial Accounting & Reporting (4.0 hours)
Accounting & Reporting (3.5 hours)	Regulation (3.0 hours)
Business Law & Professional Responsibilities (3.0 hours)	Business Environment & Concepts (2.5 hours)

## Certificates Issued

The following applications for certification were approved by the Board at its December 17, 2002, and January 21, 2003, meetings:

Brian Kirk Arney	Amy Rebecca King
Sheila Jones Bacelli	Tracy Elizabeth Lebos
Sue Styles Bailey	John C. Lenker, II
Carl Franklin Beal, III	Jonathan Michael McCarty
Sarah E. Blanchard	Eileen N. McGinn
James A. Blevins	Tamara Danielle McMahan
Rhonda Vashti Brickner	Megan Joy Hart Michaels
Claire Melissa Burrell	Aaron Douglas Milheim
Mary Elizabeth Cannady	Jaylene Moss
Jamie Michael Coffey	Jason Scott Murphy
Tara Jacqueline Corcoran	Susan Joy Murphy
Melanie Ann DeGroot	Joseph Gerald Nawrocki
Jennifer Renee Detelich	Leah S. Nazworth
Kenni Elaine Doyle	Nghi Phuong Ngo
Owen William Drugan	Jin Su Park
Laura W. DuBose	Kirsten Lynn Parriott
Glenn E. Emery	John Robert Peirson
Joy Michelle Eure	Joanna Marie Phillips
Shandra Leah Faw	Hope Shammara Piggee
Diana Moore Fishburne	Matthew Weber Pohlman
Amy Malpass Fowler	Patrick Vincent Powers
Angela Eubanks Fowler	John Christopher Purdy
Michael Eric Friedlander	Katherine Lentz Rendleman
Mitchell Clare Grondalski	Jennifer Lynn Shafer
Gregory Merle Hathorne	Johnathan Brook Smith
Donna L. Hawkins	Kristy Lynn Smith
Sonia R. Hines	Paula Elisabeth Smith
Brandie P. Hodge	Rachel Elaine Smith
Kellie Dawn Honeycutt	Sun Cho Song
Timothy Caine Hooks	Melissa A. Stewart
Terry Lynn Howell	Alicia Jones Stone
Amy Shea Howie	Melinda Reynolds Storey
Jonathan Bradley Hoy	John William Struble
Ryan Dale Hunsucker	Stacie Denise Suggs
Elizabeth Lee Integlia	Anita Davis Surphlis
Angela Dawn Jarvis	Kathy Lewis Tillman
Cathleen Barbara Johnson	Barry Cornell Webb, Jr.
Stacie Lynn Kimes Jones	Kathleen Lorraine White
Diane Lynn Jost	Carolina Wibmer
Jennifer Leigh Karriker	James Anthony Wittmer
Karen Lee Kelley	Alan Richard Wood

## IRS Taxpayer Assistance Numbers

The Internal Revenue Service (IRS) has established the following taxpayer assistance telephone numbers:

- 1-800-TAX-1040 - for individuals
- 1-800-TAX 4933 - for small businesses related to business returns, 940, 941, 1041, 1065, 1120, 1120S, excise returns, estate and gift returns, and EINs
- 1-800-TAX 1954 - refund hotline for 1040s only
- 1-800-TAX-FORM - forms and publications
- 1-877-777-4778 - National Taxpayer Advocate
- 1-800-555-4477 or 1-800-945-8400 - EFTPS hotline
- 1-877-TAX-5500 - tax-exempt and government helpline, including retirement plans
- 1-866-860-4259 - Practitioner Priority Service

## Volunteers Needed for Exam Committees

The National Association of State Boards of Accountancy (NASBA) has asked the NC State Board of CPA Examiners to recommend qualified individuals to participate in all aspects of the Uniform CPA Examination program.

For 2003-2004, recommendations are needed for the AICPA Board of Examiners; the Content Committee and its subcommittees; the International Uniform Certified Public Accountant Qualification Examination (IQEX); and various task forces.

For detailed information, such as objectives, major initiatives, qualifications, and annual time commitments, on the Board of Examiners and the committees, please visit the Board's web site ([www.state.nc.us/cpabd](http://www.state.nc.us/cpabd)).

If you are interested in serving on a committee or task force, please contact Robert N. Brooks, the Board's Executive Director, by telephone at (919) 733-1425 or via e-mail at [mbrooks@bellsouth.net](mailto:mbrooks@bellsouth.net).

## Inactive Status

“Inactive,” when used to refer to the status of a person, describes one who has requested inactive status and been approved by the Board and who does not use the title “certified public accountant” nor does he or she allow anyone to refer to him or her as a “certified public accountant” and neither he or she nor anyone else refers to him or her in any representation as described in 21 NCAC 8A .0308(b) [21 NCAC 8A .0301(b)(23)].

11/22/02	Angela D. DeBoeser	Raleigh, NC
11/22/02	Andrea Lavery Maas	Greensboro, NC
11/25/02	Robert Dayle Voigt	Mount Pleasant, SC
11/25/02	Amy Blackard Weir	Raleigh, NC
11/26/02	Gary M. Kramer	Matthews, NC
12/03/02	Sarah Zinner	Folsom, CA
12/09/02	Carla L. Peterson	Chapel Hill, NC
12/09/02	James Davidson Rizzo	Denver, NC
12/09/02	Carla Carbonara Rizzo	Huntersville, NC
12/09/02	Grant Joel Johnson	Bountiful, UT
12/10/02	Paula Marie Toole	Matthews, NC
12/10/02	Andrea Babbitt Snyder	Charlotte, NC
12/12/02	Amy Swing Heese	Pelham, NY
12/12/02	Mona Vijay Doshi	New York, NY
12/16/02	Ginger Lynn Lanier	Huntersville, NC
12/17/02	William MacMinn	Fort Mill, SC
12/19/02	Wallace Reid Kearns	Asheboro, NC
12/19/02	John Richard Goodwin	Cary, NC
12/19/02	Scott Donald Schauer	Raleigh, NC
12/23/02	Elizabeth Sue Rinehardt	Concord, NC
12/23/02	Terry Wells Baker	Raleigh, NC
12/27/02	Julia Pruett Dameron	Knoxville, TN
12/30/03	George William Clapp	Westfield, NC
12/30/02	Marcus Alan Dedmond	Ellenboro, NC
12/30/02	William Homer Saunders, Jr.	Walterboro, NC
12/30/02	Carolyn Stevenson Offill	Hickory, NC
12/30/02	William Arthur Prosser, III	Richmond, VA
12/30/02	Philip Roe Warren	Durham, NC
12/30/02	Eric V. Schmid	Cleveland, OH
01/07/03	Ann Astin Hardin	Matthews, NC
01/07/03	James Wesley Carland, Jr.	Cullowhee
01/07/03	Jeffrey Warren Battle	Wilmington, NC
01/07/03	Jane Harris Pate	Durham, NC
01/07/03	Marc Cullen	Apex, NC
01/07/03	Emily Dearman Cullen	Apex, NC
01/07/03	Angela Rosemarie Smith	Charlotte, NC
01/07/03	Suzanne H. Macy	Charlotte, NC
01/07/03	Cynthia Burgess Fischer	Longboat Key, FL
01/07/03	Bridgett Mathis Pratt	Charlotte, NC
01/09/03	Barbara Gail Hein	Raleigh, NC
01/09/03	Judith Ann Johnson-Cohen	Waxhaw, NC
01/14/03	Janice Toothaker Gore	High Point, NC
01/14/03	Allison Jane Leonard	Kentwood, MI

## Reclassifications

### Reinstatements

#### 12/17/02

Claire Crepeau Hinspeter, #19237  
Janet Willard Holbrook, #14399  
Shawn Francis Kowalewski, #25583  
Beth G. Monaghan, #19255  
Gary Lee Ward, #16814

#### 01/21/03

Karen Hutchison Curran, #13599  
James Michael Farless, #21964  
Gina Parrott Glick, #22872  
Richard R. Hodge, #23123  
Richard Sterling Ingram, Jr., #16111  
Ross William McCanless, #19768  
Joseph C. Osborn, #27697  
Terry Fletcher Pope, #8195  
Susan McBride Richardson, #19686  
William Kenneth Wease, #12286

### Retired

“Retired,” when used to refer to the status of a person, describes one possessing a North Carolina certificate of qualification who verifies to the Board that the applicant does not receive or intend to receive in the future any earned compensation for current personal services in any job whatsoever and will not return to active status [21 NCAC 8A .0301(b)(23)].

#### 12/17/02

Carl Wilkins  
Lumberton, NC

#### 01/21/03

Christine Carol Hildebrand  
Apex, NC  
Kelly Howard Young  
Waxhaw, NC

### IRS Form W-9

If you need a copy of the Board’s IRS Form W-9, please visit the Board’s web site ([www.state.nc.us/cpabd](http://www.state.nc.us/cpabd)) and click on the “Forms” link.



## Commissions and Referral Fees

### **What is the difference between a commission and a referral fee?**

A commission is compensation for recommending a product for sale or service to be provided by the CPA or a third party.

The commission is always based on whether the product is purchased or the service is provided.

A referral fee is compensation paid by a third party to a CPA for referring a client to the third party for the sale of a product or service to be provided by the third party.

The referral fee is usually not based on whether the product is purchased or the service is provided to the client.

### **May I accept a commission or referral fee from a client for whom I provide audit or review services?**

21 NCAC 8N .0303(c) prohibits a CPA from accepting a commission or contingent fee from clients for whom you provide audit or review services.

21 NCAC 8N .0303(c) allows, in limited circumstances, the acceptance of a commission or contingent fee from a client for whom you provide the compilation of financial statements.

### **I have a friend who is a licensed real estate broker. May I receive a referral fee for referring a client to him? May I receive a commission if my friend sells a house to my client?**

In North Carolina, only individuals licensed by the NC Real Estate Commission (NCREC) may receive a referral fee for the referral of a client or receive a commission for the sale of real estate, so you may not receive a referral fee or commission from your friend.

### **My friend is a licensed insurance agent. May I receive a referral fee for referring a client to her? May I receive a commission if the client purchases a policy from my friend?**

A CPA may receive a referral fee from a licensed agent, agency, or insurance company as long as the

fee is not contingent upon the sale of an insurance product or service. The NC Department of Insurance (NCDI) prohibits referral fees based on a sale.

A CPA who is licensed by the NCDI may be paid a commission by, or split a commission with, a licensed agent, agency, or insurance company for the sale of products or services to a client that is referred to the agent, agency, or insurance company by the CPA.

### **May I receive a referral fee for referring my clients to the company that prints my checks?**

If you comply with 21 NCAC 8N .0303(c) and (e), you may accept a referral fee for referring your clients to the company that prints your checks.

### **I have a friend who is a stockbroker. May I receive a referral fee for referring a client to him? May I receive a commission if my friend sells stocks or mutual funds to the client?**

A stockbroker may not pay a referral fee to any person other than a licensed employee of the broker/dealer firm. Likewise, a stockbroker may not pay to, or split a commission with, any person other than a licensed employee of the broker/dealer firm.

### **May a CPA receive a referral fee or commission from a registered investment advisory firm?**

A CPA may receive a referral fee for referring a client to a registered investment advisory (RIA) firm only if the CPA is properly registered as an investment advisory representative (IA) with the RIA firm.

In some cases, there may be an exception to registering as an IA. The Securities Division of the Office of the NC Secretary of State can provide information on registering as an IA or an RIA firm.

A CPA may receive a commission from the RIA firm for placement of a client's funds for asset management by the RIA firm.

A CPA may be registered with more than one investment adviser only in the following two situations: all of the investment advisers with whom the investment adviser representative

wishes to be associated are under common ownership or control; or the investment adviser representative is acting as a "solicitor" for more than one investment adviser firm. A "solicitor" is a person who receives compensation for referring business to an investment adviser firm.

### **What, if anything, am I required to disclose to a client if I receive a referral fee or commission?**

A disclosure to a client regarding a referral fee or commission must meet the following requirements:

- *The disclosure must be in writing;*
- *The disclosure must be dated;*
- *The disclosure must state the service or product to be rendered or referred as well as the amount of the referral fee or commission to be charged;*
- *The disclosure must be made by the CPA and signed by the client prior to the referral, sale, or performance of services;*
- *The disclosure must be made on every referral, sale, or service to be provided to the client; and*
- *A copy of the disclosure must be provided to the client.*

### **Which Board rules that I should read and understand before I accept a referral fee or commission?**

Before accepting a referral fee or commission, you should be familiar with the following:

- 8N .0202(b)(6)(7)(8) - *Deceptive Conduct Prohibited;*
- 8N .0204(a) - *Discipline by Federal and State Authorities;*
- 8N .0205(a) - *Confidentiality;*
- 8N .0212 - *Competence;*
- 8N .0301(a) - *Professional Judgment;*
- 8N .0303 - *Objectivity and Conflicts of Interest;*
- 8N .0304 - *Management Consulting Service Standards;*
- 8N .0305 - *Retention of Client Records;* and
- 8N .0402 - *Independence*

If you have any questions regarding commissions or referral fees, please contact Robert N. Brooks, Executive Director of the Board, by telephone at (919) 733-1425 or via e-mail ([rnbrooks@bellsouth.net](mailto:rnbrooks@bellsouth.net)).



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